

Previous references.

G. 7. 134-06 B. 81. Nov. 1906.

G. 7. 134-06 B. 82-6 Decr 07. 1905.

G. 7. 36-13 81. Mar 1913.

SA 64-13 85, 16, 17 & 25. (Gen. Finance)

Later references.

G. 7. 163-14 B. 86 1 & 2.

April 1915.

G. 7. File No. 26-14

Serial No. 1.

GENERAL AND REVENUE SECRETARIAT.

Serial No. 1.

Part B. for

April 1915

SUBJECT.

System of Govt Audit.

Sl. 1. From the Comptroller. No. 1323 R. 79 dt. 15-8-14.

Forwarded for consideration & orders of Govt.
A memorandum on the present system of Govt
audit & suggestions for its improvement.

For final orders refer to Govt Proprs.

No. 2. 844 dt. 15-4-15. (Sl 2 of G. 7. 163-14).

which disposes of this file. Case.

G. R. S. 58

Encl. Tareem
19/4/15

GENERAL AND REVENUE SECRETARIAT.

(97)

NOTES.

File No. 26.

FILE HEADING.

System of Govt Audit

From

The Comptroller

No. 1323/R79

Dated 15. 8. 1914

Received 18. 8. 1914

Diary No. 717

Enclos.

Spare Copies.

Serial No. /

BRIEF ABSTRACT OF LETTER.

Forwards for consideration and orders of Govt
a memorandum on the present system of Govt audit
and suggestions for its improvement.

NOTES AND ORDERS

Submitted for orders

20/8/14

22/8/14

Under the Civil Acct Code the audit office
does not audit Rev & Receipts transactions
of the Rev. collecting authorities not keeping a sharp
look out defal causes great loss in this item
on the expenditure side. To minimise the

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The chance of not being defalcated and the auditors being specially trained to keep correct accounts the sufficiency of the Comptroller's proposal in his memorandum is worthy of adoption.

3. On the expenditure side, V.R. audit is at present conducted by the Audit Office and fact audit & Economic Audit. When done by the Hon. Secy & Govt. The Efficiency Audit Branch has been constituted for this purpose and an occasional intervention of the Audit Office in fact audit seems also desirable. The Comptroller's suggestion about empowering him at first & subsequently afterwards to empower the Hon. Secy to put into the power of hispecting every office is before Govt.

4. The Comptroller will suggest definite measures of the scheme is generally approved. In Revenue the Comptroller requires 1 (selected) Officer & 4 Clerks.

(Hecy)

12.8.14

5. Referred to the present Hon. Secy, (Fin.) for favour of opinion.

6. The proposal of the Comptroller to ^{Dr. 31/8} institute a system of fact audit of revenue and

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Receipts (by the account office) and of fact and economic audit of Expenditure is a very important one and cannot I think be adequately considered by the finance department or alone. For a proper consideration a Committee of Experienced Officers representing the several departments would, in my opinion I think, be necessary.

7 According to existing rules the examination of accounts relating to revenue and receipts is generally left to the department concerned and if this work is done as by them as efficiently as it should be and could be done by them, there is no reason why a test audit by the accounts office is necessary. There is no reason why the supervising agency in the department should not do the work as well as, if not better than the staff of the accounts office, and with the more intimate knowledge of the department possessed by the former, it should perhaps be able to do it even better than the latter. To superimpose on the top of this a test audit by the accounts office, which cannot be very effective, is now seems to be unnecessary. Test audit by the accounts staff cannot be very effective because 1) if one Taluk is to be audited

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every year. The interval between two audits of the same office would be very long and an audit which is not carried on at short intervals is no good in rectifying irregularities.

(2) the audit office staff will have to go ~~only~~ rely on the account books and other records and will be only able to see that everything is alright on ~~the~~ paper while the departmental officer could go behind the paper and see if the facts as stated on paper are really true, and a ~~paper~~ ^{per} audit of receipts to be effective will have to go to the actual facts & the the audit office cannot do. Of the four items mentioned by the Comptroller in para (5) as those constituting the important links in the chain of audit the first namely that every assessable unit is assessed ~~the~~ is one which cannot be verified by looking at the accounts alone. The Comptroller's correspondence & records may at times throw some light in the matter, but I do not know if the accounts dept staff would find the time or inclination to go through all the correspondence and records of the office and at any rate this work could be done better by the dept. Officer. ~~A piece of~~ ^{but} ~~stands~~ ^{stated} about the 2nd item that "the sales are fair to the State", the accounts

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Staff is not at all in a position to judge accurately. ~~That the assessed~~ Regarding points (iii) & (iv) viz that the assessed amount is either collected or shown as an outstanding balance & that the collected amount is credited in the Treasury accounts, the responsibility now rests on the dept. officers. As these points are very important and to verify them in actual practice is very simple, there is no reason to think that the present practice is not in any way unsatisfactory or requiring improvement.

8 There is thus little to be gained by the test audit of the accounts Staff.

~~(11)~~ ^{the} One reason why this system should not be adopted is that it is likely to reduce the sense of responsibility of the Controlling Officers of the department, ^{They are likely to} who ~~may~~ ^{be} slacken their supervision and inspection and rely on the ^{test} audit Staff to do this work. If the Controlling and Supervising Officers of departments are not doing their work satisfactorily or efficiently now, the remedy is to be found elsewhere and not in introducing a measure which will tend to lessen their responsibility.

~~The ineffectiveness~~ The above arguments

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apply with greater force to the ~~and~~ 'fact'
and 'economic' audit of Expenditure & given
in the Comptroller's note, not much is
expected from his proposals in this direction
and he seems to think that advantage
is ^{lost} gained only as regards audit of receipts.

It is therefore submitted that an
agency as suggested by ~~the~~ is not necessary and that
other steps may ~~be~~ ^{be} taken to make
the Controlling and Superintending Officers
of departments, more efficient and thorough
in their work if it is considered that
they are not working satisfactorily
at present. ^{however,} If it is proposed to
give the Scheme a trial, the Comp^r
may perhaps be asked to audit all
the accounts of one ~~of~~ ^{of} and
submit a report after actually finding
out what results he has been able to
achieve thereby. I don't think the
experiment a success it will be then time
to consider ~~making~~ ^{such an} permanent ~~institution~~
for the audit of ^{all the accounts of a} ~~the~~ ^{of a} ~~year~~
perhaps only one or two clerks for six or
eight months may ^{perhaps} be considered sufficient
and these may work under the local audit
or other audit ~~Comp^r~~ ^{power} giving the Comp^r ^{to}

9736-13 (1120 & 4003) 22. Jan 1914
not to be before the Secy. Genl.
NOTE—Contn. sheet.
on 16/4.

(Glsur) make surprise visits to examine
cash, stores and accounts of ^{by} ~~the~~ ^{16/10/14}
any office would be very
advantageous, without ~~causing~~ ^{causing} any increase
in establishment.

Assistant Secretary's note dated 14th October 1914.

The proposal of the Comptroller to institute a system of test audit of revenue and receipts and of fact and Economic audit of expenditure by the account office is a very important one and cannot I think be adequately considered by the finance department alone. For a proper consideration a committee of Experienced officers representing the several departments would, I think, be necessary.

According to existing rules, the examination of accounts relating to revenue and receipts is generally ~~is~~ left to the departments concerned, and ~~if~~ if this work is done by them as efficiently as it should, and could, be done, by them there is no reason why a test audit by the accounts office is necessary. There is no reason why the supervising agency in the department should not do the work as well as the staff of the accounts office, and with the more intimate knowledge of the department possessed by the former, it should perhaps be able to do it even better than the latter, and to superimpose on the top of this, a test audit by the accounts office, which cannot be very effective, seems to be unnecessary. Test audit by the accounts staff cannot be very effective because, (1) if one Taluk is to be audited every year the interval between two audits of the same office would be

very

the departmental officers. As these points are very important, and to verify them in actual practice is very simple, there is no reason to think that the present practice is not in any way ~~satisfactory~~ satisfactory, or requires improvement.

There is thus little to be gained by the test audit of ~~the~~ the accounts staff. One other reason why this system should not be adopted is, that it is likely to reduce the sense of responsibility of the controlling officers of the department. They are likely to slacken their supervision and inspection, and rely on the test audit staff to do this work. If the controlling and supervising officers of departments are not doing their work satisfactorily or efficiently now, the remedy is to be found elsewhere, and not in introducing a measure which will tend to lessen their responsibility.

The above arguments apply with greater force to the 'fact' and 'Economic' audit of expenditure. Even in the Comptroller's note, not much is expected from his proposals in this direction and he seems to think that advantage is to be gained only as regards audit of receipts.

It is, therefore, submitted, that agency as suggested is not necessary and that, other steps may be taken to make the controlling and supervising officers of departments, more efficient and thorough in their work if it is considered that they

General and Revenue
Secretariat.

By 7 File No. 26, 15/1914-15

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A typed copy of the Mt. Secy. note maybe placed in the file

Dues

15/10

12

A typed copy of the note put up

U.S.

19.10.14

(Gilsen)

15

22/10/14

13

I should be glad to have the views of the Mt. Secy. on A

copy of the Printed Compilation & Audit maybe put up

for reference

Dues

26/10

Box 1000

Recd
27/10.

G. A. B. Harris

11.10.14

14 The question was discussed once before (vide printed collection put up herewith)

15

It is no doubt true that the present system does not bring under audit check the entire operations connected with the meanings and outgoings of public money, but the proposal to supply this deficiency seems to involve many practical difficulties. Under the system suggested for adoption, the Audit Office will not only audit vouchers, but check the various processes connected with the realisation of revenue, and hold a fact audit of expenditure. We have only to analyze what

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This means in the concrete in order to see the stupendous nature of the work proposed to be undertaken and the chances that it stands of being satisfactorily performed.

11/6 To take the case of land revenue, the auditor will have, according to the present proposals to begin his work by checking the Survey measurement of the fields (the field being the assessable unit of land under Ryotwari System), the classification of the soils, and the appraisement of irrigational sources. He will have to study the ^{economic} condition of the several parts of the country to make sure that in fixing the rates, due advantage has been taken of such factors as the rise of prices, the improvement of communications etc. When he is satisfied, after the very elaborate enquiry necessary therefor, that for the purpose, that there has been no mistake in the work of the Survey Dept, he will have to turn his attention to the Income Department, and examine its work. He must see that claims to alienated revenue have not been admitted with undue

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liberality or contrary to the rules.

17 The investigation of these permanent bases of land assessment must be followed by an examination of the variable items of demand. The Auditor must assure himself that the lands shown as unoccupied are really so and that they have not been surreptitiously cultivated, that there has been no illicit use of Govt water for irrigation, that kulbani and auroi produce have been disposed of to advantage, that no favouritism prevails in the grant of fishing and quarrying rights, that no vacant sites or other properties assessable to the Mohatafs have been inadvertently or fraudulently omitted, that no exemptions from the tax have been given to persons not entitled to the same and so on.

18 The list of points which should engage an Auditor's attention under the system proposed would be almost inexhaustible, but the enumeration above made will probably suffice to show that for the proper performance of these duties, what is required is not

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Secretariat.

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is being only brought into account and that no short measurements, illicit ~~measurements~~ removals and other sources of leakage are permitted. This ^{last words} ~~is~~ not be audit, but detective work.

20 In making these remarks I have in mind only the first two links of the revenue audit. As regards the last two, which involve only an examination of accounts and papers, there can be no objection to their being undertaken by the Account Dept. It is however a matter for consideration if ~~whether~~ it is desirable to sanction an additional staff for this comparatively unimportant work alone.

21 Coming to the audit of expenditure, there appears no intention to take up economic audit except in a casual way, and nothing need therefore be said about it here. As for fact audit, it seems to me that no good can result from its being undertaken by the Account Dept. This kind of audit is at present being done by the ~~inspecting~~ officers of the several Departments, and it would appear far better to systematise

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their work men to create a fresh agency, imperfectly equipped for the task. Fact audit, simple as it may appear, is oftentimes bafflingly difficult to ^{uninitiated} ~~the initiated~~. If money has been spent on establishment or ordinary stores, an auditor may perhaps be able to verify the fact. But if the result of the expenditure is a canal or a railway, the so called fact audit, except by a professional engineer, must be more or less a make-believe.

22 To conclude, the greater portion of the work sought to be imposed on the Account Dept is really beyond its competence. It can be far better done by the departmental officers, whose training and close knowledge of detail, places them at a great advantage. So far as the examination of Revenue accounts etc goes, however, it will be desirable to have a periodical audit of them by the staff of the Account Dept. Even now this is being done where gross irregularities have been reported, ^{but it is desirable} ~~but~~ to make it systematic, ^{however} ~~but~~ the question is one of

Please treat the file as confidential throughout.

Drill
3/1/10

13

G. R. S. 12]

General and Revenue
Secretariat.

GF

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No.

funds.

Secretary)

Recd
29/10/14

23 My opinion is that the proposed Scheme in regard to fact audit will be not be possible and that even if possible, it will be highly undesirable. The reasons in support of such opinion are contained in my Note, printed as Appendix (v) - pages 13 to 16 - in the printed document put up herewith.

The Scheme now urged by the Comptroller is essentially the same that was considered and not accepted by Govt before formally bringing into existence the Efficiency Audit Branch.

I have little doubt that the Heads of depts, (excepting of course the Comptroller) would strongly resist the interference of the Account Dept in matters of fact. The suggested development of the Acct Dept in this direction would, in my opinion, soon prove quite abnormal.

I have scarcely anything to add to my printed Note referred to above.

Swan)

D. S. Rao
31/10

2367
6/11/19/14

Please circulate & bring up at a meeting

of Council

24.12.14.

RP

C.S. Rao
25/12

NOTE—Contn. sheet.

GPB-10,000-13-6-14

Seen.

28.1.15.

Recd
21/1

18/1/15

Seen
28.1.15.

20.12.1914

(14)

GENERAL AND REVENUE SECRETARIAT.

Council Matter.

SUBJECT.

Comptroller's Memorandum on the present system of Government
Audit and suggestions for its improvement.

CIRCULATED TO THE MEMBERS OF COUNCIL.

By Order,

D. M. Narasimha Rao

Offg. Secretary to Government.

26th December 1914

Extraordinary Member of Council. Seen by the Ex. Mem. 25/10

First Member of Council.

Seen by First member 19/11

Second Member of Council.

Seen by 2nd member 23/11

Gl. 17]

It is requested that in future communications on the subject, the No. and date of this letter, and the distinguishing letters below the number as given opposite, may be quoted and addressed to the Comptroller, Mysore Government window delivery No. 6, Bangalore.

DIARY No. 717

10/6/25

SECTION 9.2

FILE NO. 26-14

SERIA NO. 1

No. 1323

R.79.

Encl: One

OFFICE OF THE COMPTROLLER, MYSORE GOVERNMENT,

Dated Bangalore, the 15th August 1914

FROM

J. S. CHAKRAVARTI, Esq., M. A.,

F. R. A. S., ETC.,

Comptroller to the Government of

His Highness the Maharaja of Mysore.

To

.....D. M. Narasinga Rao.....Esq., B.A., B.L.;

Offg. Secretary to the Government of Mysore,

General and Revenue.....Departments

SIR,

I have the honour to forward herewith, a memorandum on 'the present system of Government audit and suggestions for its improvement', for consideration and orders of Government.

I have the honour to be,

Sir,

Your most obedient servant,

J. S. Chakravarti

Comptroller.

C.M.R.

Rec.—Gl. 17]

.....Department.

1914.

FROM

J. S. CHAKRAVARTI, Esq., M. A.,
F. R. A. S., ETC.,
Comptroller to the Govt. of
H. H. the Maharaja of Mysore.

To

.....Esq.,
Secretary to the Govt. of Mysore.
Paul L. ... Dept.

Dated

Despatched 17-8-14

Received

No. 1323
1279

Subject matter.

*Follows a Memorandum
on the present system of Govt
Audit & suggestion for
its improvement.*

Enc 2081 (2)

M e m o r a n d u m
on the
Present system of Government audit and suggestions
for its improvement.

1. In Mysore the British Indian account and audit system has been adopted. This consists of compiling the accounts and exercising audit check in the central office with the help of vouchers received from disbursing treasuries. The system as it is now worked is not satisfactory. The subject has been discussed at length in British India but no solution has been arrived at. In this memorandum an attempt will be made to suggest some improvements in the existing system.

Revenue Audit.

2. At present Government audit is mainly concerned with the audit of expenditure. The check of receipts is regarded entirely as the business of the administrative departments concerned. While the responsibility of the administrative departments for collecting and for accounting for the revenue should be fully maintained, it seems also necessary that the audit department of the State should exercise some check in this direction. In my opinion it is necessary that the audit department should exercise a test check as regards receipts and submit a periodical report to Government.

3. The nature and extent of the test check is a matter of detail and can be settled when the general principle is recognised. Personally I think that it would be a very good thing if the audit department

2.

department selected one taluk every year and completely audited the accounts of all receipts within that taluk. An operation like this is likely to be very beneficial and also more helpful to the administrative departments.

4. For audit purposes, revenue and receipts can be divided into three distinct classes:-

Not necessary

- (a) regularly assessed revenue
- (b) revenue derived by regular sales and services
- (c) casual revenue

5. In the case of regularly assessed revenue* the

*Land revenue, Mohatarfa etc.)	}	four important links in the chain of audit would be as follows:
-----------------------------------	---	---

- (i) that every assessable unit is duly assessed under proper authority,
- (ii) that rates are fair to the State,
- (iii) that the assessed amount is collected or shown as outstanding balance,
- (iv) that the collected amount is credited in the treasury accounts.

6. In the case of revenue derived by regular sales

Excise, Forest, Stamp, Registration etc.)	}	and services the points for audit will be as shown below:-
---	---	---

- (i) that sales are effected and services rendered as far as possible and desirable
- (ii) that the rates are fair to the State
- (iii) that value for what is sold is collected or shown as outstanding balance
- (iv) that what is collected is credited in the treasury accounts.

3.

7. As regards casual receipts the points for check will be:-

(i) that all casual sources of revenue are properly watched and nothing leaks or goes to waste.

(ii) (ii) to (iv) as in the foregoing paragraph.

8. In the case of test audit of revenue suggested above, all the points in the foregoing paragraphs will be carefully looked into and a report submitted to Government.

9. If the scheme for the test audit of revenues and receipts in the audit department sketched above is approved, one additional gazetted officer and a small establishment of, say, 4 clerks will be necessary for regularly carrying on the work.

Expenditure Audit.

10. For purposes of audit, expenditure may be grouped under three main heads viz. establishment, supplies and services and grants-in-aid.

11. The several links in the complete chain of audit of expenditure are as follow:-

(i) Economic Audit

(ii) Fact audit

(iii) Voucher audit.

12. Economic Audit : as regards establishment charges should consist in examining whether the establishment is necessary in the interests of the public service, whether the men employed are suitable and qualified

under

4.

under the rules, whether the establishment is doing the kind and quantity of work expected, whether it is efficient and up to the mark etc.

13. As regards supplies and services, the object of Economic Audit should be to find out whether the articles or services paid for are necessary in the interests of the public service, whether due economy is exercised in obtaining and preserving them etc.

14. Similarly, as regards grants-in-aid, the aim of Economic Audit should be to find out whether the grant is necessary in the interests of the State, whether it is not excessive when compared with the benefit derived, and so on.

15. Fact audit should consist in carefully scrutinizing that the vouchers sent up to the audit office really conform to facts in all respects. As regards establishment charges, fact audit should disclose whether the full establishment shown in the establishment bill is really maintained and employed on Government work, whether all allowances claimed are properly earned, whether the amounts drawn are properly disbursed, and so on. For charges on account of supplies and services, fact audit should be directed to find out whether the articles mentioned in the vouchers have been obtained and brought on to the proper stock account, whether the payments are to be recognised and bona fide dealers etc. As regards grant-in-aid, the object of fact audit will be to see that payment has been made to the correct party and that the money is utilised by that party for the purpose for which it is intended.

16. Voucher audit is the ordinary audit of vouchers
received

received from the disbursing treasuries in the Comptroller's Office as it is now carried on.

17. As regards the agency for carrying out these three different stages of expenditure audit referred to above, it may be stated that voucher audit may continue to be conducted as at present in a centralized manner in the Comptroller's Office. The system of voucher audit as it obtains now is very important and absolutely necessary; That it occasionally fails is due to inefficiency or carelessness of the staff and to the fact that it is not supplemented as it should be by fact audit and economic audit.

18. Fact audit now rests completely with the administrative department, but here also as in the case of check of revenue, I think that a test check by the audit department of the State is very desirable. Occasional reports to Government from the audit department will make the administrative and executive officers realise their responsibility as regards fact audit and tend to keep their work up to the mark in this important direction. I have recently submitted to Government a proposal to empower the Comptroller to inspect the system of work, accounts, cash, stores, etc. of any office within the State. If this is sanctioned, the necessary test check as regards fact audit will be possible.

19. If necessary, the revenue audit officer referred to in para 9 above will help the Comptroller in respect of this work.

20. As regards economic audit, the matter rests primarily on the head of the department and the Government.

Government. These schemes recently inaugurated viz. the creation of the Efficiency Audit Department and the arrangement under which the members of Government will regularly do inspection work, very satisfactorily solves the question of agency as regards economic audit. The Accounts and Audit Department will, of course, render all possible assistance and the officer in charge of the revenue audit will be available for this class of work. I venture to think that the present system of audit supplemented in the way indicated in this note will be fairly a satisfactory one.

21. In this note I have dealt only with the audit of State revenue and State expenditure. As regards the check of revenue and expenditure of Local Funds the system of local audit introduced by Government sometime ago meets the requirements of the case in a satisfactory manner. All that is necessary in this direction can be secured by improving and strengthening the present local audit constitution.

22. The proposal contained in this note on which orders of Government are necessary, is the creation of an additional branch of this office for revenue and fact audit consisting of 1 gazetted officer, 4 clerks and a few menials. Definite proposals will be suggested if the proposal is approved generally.


Comptroller.

Comptroller's Office,)
Bangalore, 15th Aug. 1914)

For original refer to sl 2 of G. 7. 163-14.
which disposes of this file. S. M. W. J. (8)

Proceedings of the Government of His Highness

the Maharaja of Mysore.

R e a d :--

Letter No. 134 dated 17th September 1914 from the Comptroller enclosing a note on the inspection of certain Government offices by Account Officers.

2. Memorandum on the present system of Government audit and suggestions for its improvement.

Order No. R 5844 / G. 7. 163-14-2. 2

Dated Bangalore, the 15 April 1915.

In the first of the letters read above, the Comptroller makes the following among other proposals.

(1) ~~that~~ he should be empowered to inspect Taluk Treasuries so that he might be in touch with their working and

(2) that he should be authorised to inspect with the consent of the Head of the Department concerned, other offices having money transactions, with a view to the system of accounts followed therein ~~and~~ being studied and improved.

2. As regards the first proposal it is doubtful if the Comptroller and his staff would find time for undertaking anything in the nature of a systematic inspection of all the Taluk Treasuries at intervals sufficiently frequent to render the inspection of any use. If what is suggested is merely an occasional examination of the Taluk Treasuries, there appears no need to invest the Comptroller with a general power of inspection over them. He may examine select Taluk Treasuries whenever